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GENERAL AGREEMENT ON TARIFFS AND TRADE PROCEEDINGS IN GENEVA AS THEY RELATE TO AGRICULTURE

HEARING

BEFORE THE

SUBCOMMITTEE ON DOMESTIC AND FOREIGN MARKETING AND PRODUCT PROMOTION

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

ON

THE MULTILATERAL TRADE NEGOTIATIONS UNDER THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT) AND THE IMPLICATIONS FOR AGRICULTURAL POLICY IN THE UNITED STATES

APRIL 12, 1989

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GENERAL AGREEMENT ON TARIFFS AND TRADE PROCEEDINGS IN GENEVA AS THEY RELATE TO AGRICULTURE

WEDNESDAY, APRIL 12, 1989

U.S. SENATE, SUBCOMMITTEE ON DOMESTIC AND FOREIGN MARKETING AND PRODUCT PROMOTION OF THE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:35 p.m., in room SR-332, Russell Senate Office Building, Hon. David L. Boren (chairman of the subcommittee) presiding.

Present or submitting a statement: Senators Leahy, Boren, Baucus, Kerrey, and Cochran.

OPENING STATEMENT OF HON. DAVID L. BOREN, A U.S. SENATOR FROM OKLAHOMA

Senator BOREN. There are some other members of the subcommittee who will be coming shortly.

Today the subcommittee will be hearing a statement by Ann M. Veneman, Associate Administrator of the Foreign Agricultural Service, and if she would come forward; and also Charles J. O'Mara, Assistant Administrator, International Trade Policy, Foreign Agricultural Service; and Suzanne Early, Assistant U.S. Trade Representative for Agricultural Affairs and Commodity Policy.

If we could just sort of station you down toward that end, as much as we can, where everyone will be able to see you as they come in.

Warren Lavorel, I believe, has also been able to be with you, U.S. Coordinator for Multilateral Trade Negotiations for the USTR's office.

We are glad to have all of you here. We will wait just a moment before we begin to see if others—we are having several votes on the floor, unfortunately, and apparently that is going to continue for a while this afternoon.

We will wait just a moment before we begin.

[Pause.]

We will go ahead and commence. There are others on the way, unfortunately, with the votes going on.

It is an honor for me to chair this subcommittee with a membership that is truly committed to improving our competitive position at such a very important time for worldwide agricultural trade. Foreign markets are critical to the agricultural economy of my home State of Oklahoma, and certainly critical to this Nation as a

whole. The agreement reached in Geneva last week has been hailed as a breakthrough in agricultural trade reform, and as an important link to progress in over a dozen other trade issues.

This is also an important time for the continued role of Congress in the writing of U.S. agricultural policy. For the past several decades, Congress has written farm policy in a series of acts that span 4 or 5 years at a time. Congress can review our domestic farm policies and make needed adjustments. The executive branch, of course, has the power to negotiate treaties, and this administration has dedicated itself to the reduction of trade distorting agricultural subsidies worldwide. However, the Congress has the right and the duty to enact farm legislation with the health of our agricultural sector and our own food security needs in mind.

Secretary Yeutter has indicated his preference for an extension of the current farm bill, so that a final agreement can be implemented if one is signed. Many in Congress, however, recognize that food and fiber policy is written by individual nations with the health of their rural sector and their national food security as their primary concerns. Japan and the European nations are certainly expected to follow that priority. Many members of the Senate and House Agriculture Committees, therefore, feel it is necessary to proceed with the writing of a multiyear farm bill.

It is clear that many general and commodity-specific agricultural organizations are concerned about the relationship between the writing of the next farm bill and the culmination of the Uruguay round of GATT talks. I believe there is concern both on and off Capitol Hill that Congress' policymaking options are being limited by what goes on in the trade negotiations. We have asked these representatives of the administration to address these questions before the subcommittee, because I, too, share this concern, as do other members of this committee. I do not want to see Congress "obligated" into a corner as it prepares to write farm legislation, and as it prepares to write the next farm bill.

I must also admit that I was somewhat concerned when I learned that just 48 hours before the negotiators left for Geneva, different parts of the administration seemed to be sending out conflicting signals concerning the administration's interpretation of, and official position on, various elements included in GATT Director-General Arthur Dunkel's discussion paper.

Congress, and especially the Senate and House Agriculture Committees, deserve to be kept well informed of the GATT proceedings. Congress should also have the opportunity to offer input during these negotiations.

As the administration witnesses prepare to give their testimony, I trust that they will address several important questions:

What was agreed to in this latest round of negotiations?

Specifically, what was not agreed to?

What are the implications of these agreements for the 1990 crop, the last year covered under the current farm bill?

And certainly we are very anxious to hear about the implications for future farm legislation.

I had a recent discussion with the Secretary, who indicated to me that he felt that, in light of the current status of the trade negotiations, and the fact that we have not reached concrete agreements,

that we have reached only very general understandings, and that the Export Enhancement Program must proceed ahead.

Indeed, it appears that he is recommending sums in addition to those that are under the current Export Enhancement Program, under the current farm bill, I certainly feel strongly that until these matters are resolved we want to enter into the negotiations with a very, very strong bargaining position.

We want to make it clear that we are prepared to proceed ahead with a very aggressive Export Enhancement Program, and include that as part of the farm bill.

I, in fact, hope that as we begin markup of the farm bill that we perhaps will be able to begin, in the full Agriculture Committee, with the trade portions of that farm bill.

I also think it is important that as we consider the farm bill, and begin deliberations on it—so that we can complete our work by mid-1990, in time to have the legislation ready to impact the winter wheat and other programs at that time that will be waiting for the farm bill to be completed—that we will not take actions, or send signals early on, that we intend to cut back on programs in a way that would undermine our bargaining position.

We need to have the full range of options still available to us.

So this is a very important hearing today. As I indicated awhile ago, we are very pleased to have the witnesses with us: Ann Veneman, Associate Administrator of the Foreign Agricultural Service; Charles O'Mara, Assistant Administrator, International Trade Policy; Suzanne Early, the Assistant U.S. Trade Representative for Agricultural Affairs and Commodity Policy; and Warren Lavorel, U.S. Coordinator for Multilateral Trade Negotiations, from USTR.

So we are anxious to hear about the latest discussions, what we agreed to do, what we have not agreed to do, what any legal implications are for us, in terms of the current programs, and the future implications on the next trade bill.

Happily, I have been joined by Senator Kerrey, from Nebraska, a very valuable member of the Agriculture Committee, and I think I know he has to proceed to another meeting shortly, and I would like to call on him for any introductory comments that he would like to make before we turn to our witnesses.

STATEMENT OF HON. J. ROBERT KERREY, A U.S. SENATOR FROM NEBRASKA

Senator KERREY. Thank you, Mr. Chairman.

I appreciate the opportunity, as a result of your calling these hearings, to hear what has been negotiated at the GATT talks, and what the implications are for agricultural policy in the United States, both in the short and the long term.

My concern centers on what appears to be negotiating positions that very often are outside of the context of the American political debate.

For example, in Montreal it was asserted that the United States of America had "deep pockets," and was prepared to negotiate very firmly for the total elimination of all subsidies, as a consequence of having "deep pockets."

I was very surprised to hear that, given what we all know in fact to be the case, inside the United States itself, which is that we most assuredly do not have "deep pockets." In fact, both President Reagan and President Bush have recommended a reduction in agricultural programs based upon the presence of a rather enormous problem in the United States called the deficit, and yet our negotiating position was based upon our apparent "deep pockets."

I also heard in the short-term recommendations of some effort made to freeze support prices at their current levels, and some assertions made that our obligations under these short-term commitments will be met through legislation that is currently in place, and I am confused as to what legislation is being referenced, since we are currently waiting for the Secretary of Agriculture to provide us with the information as to how we are going to meet the approximately $900 million reduction under President Bush's proposal.

It is one thing to assert, as I do, that we would like to negotiate in a multilateral way within the General Agreement on Tariffs and Trade, a reduction of trade distorting subsidies, as I think most people would, but it is confusing for me to hear these assertions made that seem to be outside of the current political debate.

Moreover, one of the most difficult things that I find today, in reference to agriculture policy generally, is that there seems to be an absence of a clear intent and purpose for the farm program itself.

I think we have gone through, in the 1980's, the use of the farm program for a variety of reasons, and it is not clear to me, and I think to the American taxpayer, what the farm program is supposed to be used for.

I think that uncertainty becomes extremely important as you negotiate in the General Agreement on Tariffs and Trade talks for the lower trade barriers which I think would benefit us in the long term.

So, Mr. Chairman, I do appreciate the chance to make an opening remark, and I regret that I will not be able to stay here to listen to some answers to some of the concerns I have. I do have staff here to listen, and I assure you that in Nebraska, I think it is fair to say, most of our producers would like to have lower trade barriers, but most of our producers are very confused as to what the implications of GATT are for them personally—what will it do to their farm income in 1989 and 1990? What are the implications for short- and long-term income?

And I find myself unable, with the signals that I have been getting, to answer their questions.

Senator BOREN. Thank you very much, Senator Kerrey.

I think you raise some important questions about the strategy that we are pursuing, and we are anxious to hear our witnesses' testimony in regard to it.

It is often said that American farmers should simply get out and compete with the farmers in the rest of the world, and that we should not have artificial Government programs distorting this competition, and I think many people would agree with that, but our farmers are not being asked, at the current time, to compete with farmers in other nations.

They are really being forced to compete with governments of other nations that are providing these heavy subsidies to their own producers, and we simply cannot unilaterally disarm. We cannot expect our farmers to go out and to compete with the governments of other countries, as opposed to the producers in other countries.

We have to keep the heat on, we have to make sure that we commit ourselves to the kind of Export Enhancement Program, and the kind of domestic support programs, that will allow us to keep the pressure on, and stand by our farmers, until we are able to negotiate fairer behavior by those that are competing with us, and especially by the other governments of the world that are competing with our agricultural producers.

Senator Leahy, the Chairman of the full committee, had hoped to be here, and we still hope that he may arrive before our hearing is completed. Unfortunately, he is tied up as a member of the panel on the Hastings impeachment proceeding at this moment, but I do, at this time, insert a statement in the record by Chairman Leahy before this subcommittee.

He is extremely interested in the testimony to be offered today, and will be following what has been said. He has already made public statements in regard to the negotiations, and I will put his statement into the record, and we hope that he will be able to join us before we complete.

[The prepared statements of Chairman Leahy and Senator Cochran follows:]

PREPARED STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

Mr. Chairman, I appreciate the opportunity to comment on the recently concluded mid-term agreement between the countries participating in the Uruguay round of multilateral trade negotiations. Of particular interest to us here is the agricultural trade agreement that was reached. But, it is also significant that the negotiators managed to reach framework agreements in other important areas of trade, including trade in services, textiles, and the protection of intellectual property.

The mid-term review process was always intended to be an evaluation of the negotiations to date and a springboard to the negotiations over the last 2 years of the process. Given that expectation, I would like to briefly state my evaluation of the agricultural trade negotiations.

The Geneva agreement is a vague report card. It is promising that the countries have agreed to keep negotiating. I am encouraged that some of the more egregious trade ideas of the European Community, such as "rebalancing" is not given much legitimacy in this document. Finally, I note that the incorrect notion that the United States should continue to keep land out of production even when other countries increase production of commodities is not contained in the final agreement.

I am concerned we may not be aiming at the primary target—the dumping of subsidized agricultural commodities on world markets. I see very little movement by the European Community on export subsidies. This should be our primary concern. Instead, too much focus seems to be on reducing price support levels. Let's end the dumping and protection first, then we can consider moving toward less price support for farmers.

To be very frank, we still have a long way to go in these negotiations. The Geneva agreement leaves so very much to be decided. It contains almost every catch phrase every country participating in the talks wanted. With a few exceptions, it is everything to everybody. That is a good way to break a roadblock, but sooner or later expectations will have to be trimmed back.

So far, no hard decisions have been made. No country has made difficult concessions. Although I am hopeful that the negotiators will be able to reach their goals by the end of 1990, the amount of substantive progress made to date leaves me somewhat pessimistic that this schedule will be met.

PREPARED STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Mr. Chairman, I join you in welcoming Ann Veneman, Charles O'Mara, Suzanne Early, and Warren Lavorel here this afternoon. I am very pleased with the outcome of the agreements reached on agriculture at last week's GATT talks in Geneva. The agreement represents a compromise that takes into account concerns of various countries and provides a framework which reflects the objectives the United States is ultimately seeking in the Uruguay round. Agriculture is important to our Nation's economy and long term agricultural reform can only work to the benefit of farmers, consumers, and the industry as a whole.

Senator BOREN. Again, I want to thank all of you for taking time to be with us today and to bring us up to date, and we will begin.

Ms. Veneman, do you want to lead off with an opening statement? Any of your colleagues with you who wish to add additional comments should feel free to do so. We are happy to have you.

STATEMENT OF ANN M. VENEMAN, ASSOCIATE ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, OFFICE OF THE ADMINISTRATOR, USDA, ACCOMPANIED BY CHARLES J. O'MARA, ASSISTANT ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, INTERNATIONAL TRADE POLICY, USDA, SUZANNE EARLY, ASSISTANT U.S. TRADE REPRESENTATIVE FOR AGRICULTURAL AFFAIRS AND COMMODITY POLICY, USTR, AND WARREN LAVOREL, U.S. COORDINATOR FOR MULTILATERAL TRADE NEGOTIATIONS, USTR, WASHINGTON, D.C.

Ms. VENEMAN. Thank you very much, Mr. Chairman.

It is a pleasure for me to be here, as well it is for all of us to be here.

I might add that Joe O'Mara, Warren Lavorel and Suzy Early were all in Geneva last week as principal participants on behalf of the United States negotiations in agriculture, so certainly we all hope to be able to address the concerns you have raised here today.

Of course, your close attention, and the attention of this subcommittee, is welcomed by this administration, and we do look forward to consulting with the Congress as these trade talks continue, and we hope to address many of the concerns you have raised about trying to keep the efforts of the farm bill coordinated with the trade negotiations.

In Montreal last December, tentative agreements were reached in 11 of the 15 negotiating groups established for the current Uruguay round. The agreements covered broad issues such as tariff and nontariff measures, tropical products, subsidies, dispute settlement, and trade in services. Four areas of contention remained—agriculture, textiles, intellectual property rights, and safeguards for domestic industries. The stalemate over these issues threatened to deadlock our efforts to reform the rules of trade, and to strengthen the multilateral trading system, and free up world markets.

That stalemate was finally broken in Geneva. Negotiators emerged with a consensus on a negotiating structure in each of those four areas. In the case of agriculture, the members of the Trade Negotiating Committee reached agreement on a framework to guide the agriculture negotiations in the next 20 months. On the basis of this accord, detailed talks on fundamental reforms in the world agricultural trading system will now get under way.

Participants have agreed that, between now and the end of 1989, they will submit detailed proposals covering long-term reforms in the areas of import access, income support, export competition, and sanitary and phytosanitary regulations. These proposals are to be designed to bring about the stated objective of the negotiations—a substantial, progressive reduction in support and protection, to correct and prevent distortions in world agricultural markets. This agreement makes clear that *all* policies and programs that distort trade in agriculture are on the negotiating table.

Not later than the end of 1990, participants will agree on the specifics of the long-term reform program, along with a timetable for its implementation. The first steps toward implementation will be taken in 1991, after the agreement is presented to national legislatures and implementing legislation is developed.

As a sign of their commitment to long-term reform, Trade Negotiating Committee participants have undertaken to ensure, within the scope of their existing legislation, that current levels of support and protection in agriculture are not increased.

Specific commitments were made on import access and support prices. Further, participating countries expressed their intentions to reduce support and protection in 1990, with details to be specified by each participant by October 1989. U.S. obligations under these short-term commitments will be met through legislation which is currently in place.

A milestone was also achieved in the area of internationally accepted standards on sanitary and phytosanitary measures. We are greatly encouraged that the GATT members essentially agreed that health-related border measures should be consistent with sound scientific evidence. We now want to move quickly to strengthen the GATT in this area, including the development of the first effective multilateral process for resolving disputes centering on food safety and plant and animal health.

We are very pleased with the outcome of these talks. The agreement meets all of the U.S. negotiating objectives, permitting the United States to continue its push for fundamental multilateral reform and the elimination of distortions in agricultural trade.

I do want to emphasize that our objectives in the agricultural trade talks have not changed. We seek the progressive reduction and eventual elimination of subsidies, import barriers, and other practices that distort trade and create incentives to grow surplus products for which there are no markets. We want to strengthen GATT provisions that currently allow countries to employ practices in the agriculture sector that distort production and trade.

The Geneva Mid-Term Review Agreement is consistent with our goals. It moves us another step forward, opening the way for negotiations on fundamental reform. I would also like to reiterate that, as the trade talks proceed, the United States will only take those actions—short or long term—that are matched by the European Community and other countries.

The agreement in Geneva is a promising beginning. However, this is not the end of our work. It has taken more than 2 years to reach this point, and we still have 20 months of tough negotiations ahead before the Uruguay round concludes. It is only then that we

can look back and judge whether we have achieved what we set out to accomplish.

We continue to believe—as do a great many of our trading partners—that the Uruguay round is the best opportunity we will have for the rest of this century to establish rules that will reinvigorate global agricultural trade. As long as the rules of the trade are fair, and as long as everyone is playing by the same rules, American agriculture can compete successfully with any farm system in the world. Liberalization will provide new export opportunities to our farmers and foster renewed growth in American agriculture.

That concludes my statement, Mr. Chairman. I think that all of us here will be available to answer any questions that you and other members of the subcommittee may have.

I would also note that we do have copies of the text of the agreement on agriculture, if anyone cares to obtain a copy.

Senator BOREN. Thank you very much.

Do any of your colleagues wish to add any additional comments at this time, or shall we turn to questions?

Thank you very much.

We have been joined by Senator Baucus, from Montana, who also has a very strong interest in agricultural trade issues.

Senator Baucus, are there any comments you would like to make before we turn to our questioning of the panel?

Senator BAUCUS. No, since I just arrived I think it is only appropriate to go ahead, Mr. Chairman. I do have some questions, though.

Senator BOREN. Thank you very much.

Let me ask, beyond just having sort of a broad statement of principles to sort of set the course of future negotiations, what does the agreement accomplish in terms of something that would be beneficial to American agricultural interests?

Are there any specifics in it that you see as beneficial, other than just keeping the trade negotiations from bogging down completely on agricultural issues?

Ms. VENEMAN. Well, Mr. Chairman, I will call upon my colleagues to answer that more specifically, but I think that this agreement provides a framework, and sets a specific roadmap, or a much more specific roadmap, for these negotiations to continue, and to provide for the kind of long-term fundamental reform that we are looking for.

We hope that it will benefit all of global agricultural trade, and specifically American agriculture.

Joe or Suzy, do you want to respond further?

Mr. O'MARA. Well, I could add, Mr. Chairman, that, in terms of specifics, the benefit of this agreement is that all countries have agreed that all measures that relate to agriculture are negotiable in this round.

For example, variable levies are negotiable, as well as instruments such as our section 22. We are going through this process without countries removing things from the table. I think that is very positive.

Senator BOREN. At this point in time does it in any way hamper our current use of section 22?

Mr. O'MARA. No, sir. The short-term part of this agreement—if you have had the opportunity to read the text on short-term specifics—"under current legislation." And so for us to comply with the access commitment on short term, that will be done under current law. Section 22 restrictions will continue.

Senator BOREN. So in the short term, section 22 restraints will continue?

Mr. O'MARA. Yes, sir.

Senator BOREN. And in the long run you are saying that this is something that you will not refuse to put on the table, but you are making no commitments as to any changes in section 22, is that what you are saying?

Mr. O'MARA. That is correct.

Senator BOREN. As you can imagine, this is a matter of great interest to this committee, and to a number of agricultural groups, because obviously section 22 has been utilized, is being utilized today, and it is very important for certain commodities that we are able to maintain certain import quantity control, and it is something surely that we would want to be kept posted on, in terms of the long-range process of any consideration being given to changing section 22.

It is something we would want to have an opportunity to have input on if there were considerations, because once these trade agreements come back to us, as you know, under the process they come back under a fast track provision, and eventually in a nonamendable form ultimately.

So it is something that we would want to follow very, very carefully.

What legal commitment does this agreement represent? Does it pose any legal obligations on us, in terms of the current programs in place through 1990? Does it discontinue anything now in place, or make any changes on anything now in place, in terms of target prices, loan rates, or any other provision of the law?

You said section 22 remains operative. Are there any currently effective sections of the law, between now and through 1990, that we would have a legal obligation to change under the agreement?

Mr. O'MARA. No, sir. For example, in the area of the short-term commitments that relate to prices, what that means for us is that the Department will continue to administer the 1985 act as it is now written.

Senator BOREN. All right, and no legislation is necessary at this point in terms of any short term——

Mr. O'MARA. No, sir.

Senator BOREN. What about the Export Enhancement Program? As I mentioned in my opening comments, Secretary Yeutter and Ambassador Hills both have maintained that they do not conflict, the short-term provisions with the continued use of the Export Enhancement Program, the EEP, and I gather that is correct.

Mr. O'MARA. That is correct.

Senator BOREN. And I have also heard reports that there is an interagency review of EEP initiated by OMB that is under way, and in the meantime there seems to be a slowdown, in the short run, of EEP initiatives.

As I said, I believe very strongly, especially in light of the fact that we are in the midst of these negotiations, that we should aggressively continue our EEP initiatives while we are at the bargaining table.

I wonder if you could tell us the status of this interagency review, its timetable, when we can expect any result from the interagency review, and whether it has any relationship to what could appear, at least, to me and to others, to be a slowdown on our EEP initiatives.

Mr. O'MARA. Well, Mr. Chairman, the review I think you are speaking of relates to a departmental review of the operation of the EEP program that the Secretary has gotten under way as a part of the normal process of reviewing the operation of various departmental programs.

It has no relationship to this short-term agreement that was reached in Geneva last week, as the Secretary and Ambassador Hills have already stated. There is no discipline that we have undertaken as a result of this agreement that relates to the operation of the Export Enhancement Program.

Senator BOREN. So you do not see any relationship between either this agreement or the interagency review, in terms of slowing down our EEP initiatives? There is no coordination between them at this point?

Mr. O'MARA. No, sir. And I might mention that as far as I know, there is no interagency review that is ongoing. The Department is undertaking a review, but I am unaware of an interagency review.

Senator BOREN. Let me move, then, to the long term for a moment, before I turn to Senator Baucus.

The administration has repeatedly stated that its goal is the elimination, or at least the reduction, of what has been called trade distorting subsidies, and I wonder what, exactly, does the administration view to be trade distorting subsidies among those programs of our own, and would this include our target prices and loan rates?

I wonder how this differs from the EC's and the Cairns Group of nations' view on which of our programs are trade distorting?

As we commit ourselves to trying to have a reduction of trade distorting subsidies, what is meant by that in terms of implications of our own current farm programs?

Mr. O'MARA. Well, Mr. Chairman, we have made no determination on what is trade distorting and what is not trade distorting, as it relates to this negotiation. That very much will be on the agenda now, as we proceed over the next 20 months, and, obviously, we will be in consultation with the Congress as those discussions go forward.

We certainly will go into that kind of discussion with the idea of reciprocity, however that definition finally evolves. We will go into it with the view that equality is something that we are going to be looking for from our trading partners as well as the way they look at us.

Senator BOREN. So when we talk about substantial progressive reductions, let us suppose that for any variety of reasons—it could be budgetary as opposed to trade negotiating reasons—we had downward adjustments in our target prices and loan rates, would

committing ourselves to substantial progressive reductions as a goal, would that mean that it would be impossible for us in the future to ever increase again our target prices and loan rates, if we were to have any downward adjustment in them in the near term?

Mr. O'MARA. Well, it is impossible for me to answer that question now, because, that in part, will be the subject of this negotiation over the next 20 months.

If, for example, substantial progressive reductions of trade distorting measures include deficiency payments—include the grain programs, for example—and the U.S. Government takes on commitments there, in consultation with the Congress, and approval by the Congress, which I assume would be done in a view of how balance has been reached from other trading nations, under that scenario it is conceivable that the suggestion you make is possible.

But it is premature to know where we would be at this stage, given the fact that we are now at the point, having set the agenda last week in Geneva, of beginning the process of negotiating the subjects over the next 20 months.

Senator BOREN. Is there sensitivity to the fact—obviously, when we start to work on the next farm bill, which we will be doing over the next several months, and there are many of us who would like to see it completed by mid-1990, because we begin to worry about Winter wheat and other crops—one of the really bad occurrences, year in and year out, is the fact that all too often our farmers do not know the definition of the farm program, do not know what the farm program is going to be at the time that they have to make planting decisions, and this kind of uncertainty hangs over them.

So I think we have no choice, in my opinion, in our full committee to begin to work on the farm bill, begin to work on it title by title—but is there sensitivity to the fact that if the administration were to come forward, and were to—for budgetary reasons, or any other reasons—I am not talking about a trade negotiation related reason—advocate any substantial change in our current programs, or any downward adjustments in loan rates or target prices and so on, deficiency payments, that it certainly has an impact on our bargaining position while we are at the table?

In other words, if you make certain unilateral reductions, it is sort of like unilateral disarmament, before you even begin the negotiations, even if you do it for nontrade reasons, then you come to the table and the other side is simply going to take your latest proposals as the starting point to demand further reductions because of trade reasons.

Is there a sensitivity in the administration to the fact that we must be very, very careful, in terms of the signals we send out, as to what we are willing to do, absent reciprocal reductions on their part, so that we do not weaken our hand in the bargaining process before the bargaining even gets under way under this scenario?

Mr. O'MARA. Yes, sir, it is extremely sensitive, and for that reason, the long-term language of the agreement made in Geneva last week, reads as follows: "Credit will be given for measures implemented since the Punta del Este Declaration which contribute positively to the reform program."

So even if a situation arose where unilateral actions were taken by this Government or any other, it will be counted toward the long-term reform implementation.

In other words, if the United States were to take unilateral action, for whatever reason, it would not, in effect, be unilateral, because once the long-term reform program is agreed to, and once it has been reviewed and hopefully agreed to by the Congress, then the implementation stage would factor in that credit.

Senator BOREN. I understand what you are saying, and I am glad we put that language in, but, again, from the psychological point of view of negotiating, if we take actions that would be viewed as reducing subsidy programs on our own, even if the language states that we will be given credit for those, in terms of the negotiations, it certainly still has a psychological effect on the other side if they were to decide to do nothing of a downward adjustment of their own programs.

They can simply sit back and say, fine, we give you credit for those, you decided to do those for your own reasons, and we give you credit, but we don't intend to do anything.

And, having already done it, we would have certainly gotten nothing in return from them, even though on the books, in terms of in the future, if they decided to do something, we would sort of say, well, we already have an offsetting credit.

But it might slow the process in terms of their willingness to yield to us, or to make some concessions of their own, if we had already done some things, and laid them out publicly and on the table for other reasons.

Mr. O'MARA. Well, I think that is a valid point, and the reason the short-term language is worded the way it is, is to give the administration maximum flexibility to adjust to conditions as we proceed through these next 20-odd months.

That is why, in particular, there is no specific language that relates to the administration of our Export Enhancement Program.

Senator BOREN. Thank you very much.

I am going to turn to my colleague, Senator Baucus, for his questions.

STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Senator BAUCUS. Thank you, Mr. Chairman.

I would like to follow up on the last point. I urge, very strongly, that the administration not bank on that credit language that you just referred to.

It is my experience, in dealing in international trade, that no country operates altruistically—no country—and, therefore, we should not unilaterally take the first step, unless there is a commensurate, simultaneous, mutual adjustment on the other side, which, by definition, is not a unilateral action.

It would be foolhardy for the United States to put too much credit in the credit language, because I don't think we will find it very creditable.

The next point is—and this is a contrary view among members of this committee—that it might make more sense to just continue

the present farm bill so that we don't enact a farm bill that is an on-again, off-again farm bill.

If we enact a new farm bill in 1990, and these provisions of the Uruguay round of the GATT don't go into effect until next year, we are not going to know what the provisions are until after a farm bill is completed. It seems to me we are back in the soup again trying to draft legislation that addresses some of the changes that this country agreed to in this round of the GATT.

So I urge the administration to take whatever measures seem to most greatly enhance the United States' position. And I don't think we know definitely at this point what that is, but whatever it is, I urge the administration to take that view.

I think the question of the farm bill is very much an open question. I don't think we should willy-nilly rush to passage of legislation in this Congress. I think we should wait and see, and utilize the best advantage and the best leverage that we have.

As I understand the agreement, the European Community can raise its variable levy, if prices fall, so long as there is no increase in imports in the Community. Is that correct?

Mr. O'MARA. Well, the language you are referring to relates to the short-term——

Senator BAUCUS. Correct, in the short term.

Mr. O'MARA [continuing]. Commitments, and in fact, neither the European Community nor ourselves take on any obligations to do anything other than what we are now doing, or any other country that was signatory of this document.

Senator BAUCUS. I understand, but still, the Community can raise the levies.

Mr. O'MARA. That is—they will continue to operate it as it is now, yes, sir.

Senator BAUCUS. Yes, and I further understand that, even though it agrees, on exports the Community can, under the agreement, increase its export subsidies in one area, so long as it offsets in another—is that correct?

Mr. O'MARA. Neither of us undertook any obligations on the export subsidy programs.

The only obligation agreed to, is not to exceed current levels of support and protection and export assistance, but within that total, all sides can choose how they operate.

Senator BAUCUS. Well, I have a problem, frankly, with the provision which exempts developing countries. Why in the world would we agree to exempt Argentina and Brazil, and other developing countries, from this agreement?

Mr. O'MARA. From the short-term agreement?

Senator BAUCUS. Yes.

Mr. O'MARA. I think there are two reasons for that. One, very frankly, is that the agreement is relatively meaningless. [Laughter.]

In the short term, which I am talking about, and very frankly, it is only the developed countries that are spending huge amounts of money on agriculture.

Senator BAUCUS. Did Carla Hills and Clayton Yeutter authorize you to say that? That it is "relatively meaningless"?

Mr. O'MARA. No, I am speaking for myself.

Senator BAUCUS. Oh, I am sorry. [Laughter.]

Well, is there someone here from the administration who can tell me why we agreed, in the short term, to let Argentina, Brazil, and other developing countries out of this agreement?

Mr. LAVOREL. Yes, I will tell you why. It was because of the dynamics of the negotiation. Those are all members of the Cairns Group, and in the process of the negotiations the only way they could hold that group together was if the developing countries were let off the hook on the short term.

They are not in the long term, they will be part of the process.

I agree with Joe, it was a small price to pay in the short term, to get the agreement of the Cairns Group to the package.

Senator BAUCUS. What about the provision that recognizes the security? Is it food security?

Mr. LAVOREL. Well, let me——

Senator BAUCUS. That tends to allow Japan, for example, off the hook?

Mr. LAVOREL. It doesn't let them off the hook, Senator, but let me give you a feel for the dynamics of that negotiation.

You had a five-sided negotiation, and that is why it took us an entire week of around-the-clock negotiations to put it together. You had the EC, the United States, the Cairns Group, all with sometimes conflicting points of view, and you had a group called the Food-Importing Countries—these were small countries that rely on cheap food imports like—not all that small, Mexico is one of them—but you had Jamaica, and a lot of other small countries, and China even sent a note in saying that they had to feed 1 billion people and they didn't want anything in there that hindered that—and you had this group of what I call the food-security countries, and that included the Nordics, the Swiss, the Austrians, and the Japanese.

So, in putting this package together, you had to have something in there that let their concerns be considered when you negotiate those long-term arrangements, and for the food-security countries it was that one paragraph, paragraph number 9, which says that they can bring forth proposals in the negotiations on the aspects laid out above, all the barriers and such.

All it commits us to do is to listen to what they have, and discuss it. It doesn't commit us beyond that. It is not an out. In fact, that was the hardest clause negotiated. It took us—I think it was the last one put in place, because you had a number of these small countries that are very concerned.

They have other reasons why they, in conjunction with their agricultural policy, are very important to them, such as in the case of Switzerland, defense, and in the case of the Nordics, social reasons, and such.

So that is why that clause is in there.

Senator BAUCUS. I don't have any more questions, Mr. Chairman, except to say that this is a bit like the Mid-Term Montreal, as I see it. That is, it is barely a baby step forward. We have accomplished some, but not very much, and there is a lot more we have to do here.

I urge the administration to spend, frankly, a little more time, when consulting with Members of the Congress, to ask our view of

what we want. We are at the other end of Pennsylvania Avenue, and we are part and parcel of this.

The Constitution gives the Congress the authority to set trade policy, and we delegated the negotiation of that trade policy to the executive branch, but in granting that delegation Congress reserves the right to ratify, or disapprove, any trade agreements.

I must say that I very much appreciate the efforts of Secretary Yeutter and Ambassador Hills in meeting with us, many of us, and telling us the progress of various negotiations, but those discussions tend to be a little one sided.

We tend to be listening to what is going on, and I don't sense that they are asking us what the Congress has in mind, because if the administration negotiates an agreement that is going to be passed by the Congress—probably not passed quickly and smoothly and easily, but nevertheless passed—it is important that the administration know what the Members of Congress actually are feeling and thinking, and for them to at least hear our priorities.

That is not to say that the administration has to negotiate, necessarily, those priorities, but if you hear them I think there is a greater chance that they will reach an agreement that is more likely to be agreed to by both ends of Pennsylvania Avenue.

Thank you.

Senator BOREN. Thank you very much, Senator Baucus.

We certainly value your participation, and I would say that Senator Baucus and I also have the privilege of serving together on the Finance Committee, on which committee Senator Baucus has been the principal figure in regard to trade legislation, so he has long experience in this area, and we are particularly glad to have him join us on the Agriculture Committee, as the importance of agricultural trade issues really is at the forefront.

I underline what he said about consultation. I think that having consultation as the process unfolds certainly greatly increases our chances that we will all be of one accord when the time comes to approve or disapprove any agreement that is reached.

It is especially important for us, too, to have even closer consultation than might normally be the case, because we have the responsibility of drafting the next farm bill simultaneously with these discussions going forward.

So it is very, very important that we have a very close consultation as we proceed.

Senator BAUCUS. If I might, Mr. Chairman, I want to say that I am very enthusiastic about these GATT negotiations. This is the last opportunity we have this century to reach a meaningful GATT agreement, a meaningful multilateral agreement, because we all know about 7 percent of the goods and services traded in the world today are covered presently by the GATT. That is all.

And if we are going to enhance competitiveness in commerce and standards of living around the world, it is absolutely critical that every country go the extra mile to make this work.

Which is not to say that we should agree to an agreement only for the sake of an agreement. That is, walking away from a bad agreement is probably better than agreeing to a bad agreement.

Therefore, I urge the administration, in working with Arthur Dunkel and the other countries who are members of the GATT, to

not agree to an agreement for the sake of an agreement, but go the extra step and get an agreement that is a better agreement than otherwise would have been reached, because we are not going to have this opportunity again this century. It is critical.

Senator BOREN. I think you have certainly put it in good perspective, and I agree with you. This is the opportunity, and certainly we want to seize the opportunity, if at all possible to do so, in a way that suits our own national interests as well.

I just have a few questions about some specifics.

The agreement calls for agricultural support and protection to be reduced by, and I quote, "specific policy measures, or an aggregate measure of support, AMS."

The term, aggregate measure of support, I can imagine, will be subject to a lot of discussion as these negotiations proceed, but I wonder, how does the administration view this? Is it somewhat equivalent to total CCC expenditures in the United States?

How do we view the definition of this term, and how do you think other nations view the definition of this term?

Mr. O'MARA. The language is, on purpose, vague, and for us, it will be total outlay; for others it will be the best equivalent that can be measured as to what total outlay is.

That is why the aggregate measure of support language is in there, because many countries have different systems. Some things are off-budget items, and some things are on-budget.

The language is purposely vague because, given the fact that this short-term agreement will only last from now until December of next year, the fact is that there will not be sufficient data available in most countries to know what that total is. Therefore the language was intentionally vague because there is no way to come to a specific way to measure what the commitment is.

That is why—I didn't say it facetiously earlier, that this part of the agreement, the short-term part of the agreement, is relatively meaningless. It is more the intention of countries to not complicate the situation.

Senator BOREN. In the short term?

Mr. O'MARA. Yes, sir.

Senator BOREN. Which, I presume, since we are operating under the provisions of our existing farm bill through this period, it is just the feeling of the administration that there is not going to be any reason to have any major adjustments on our side during this period anyway, but we want to preclude others from making those kinds of adjustments.

In terms of the approach to quotas, is our position, as we make our own proposals, likely to continue to be based on the concept of converting quotas into tariff equivalents? Is that going to continue to be our approach in that aspect of the negotiations?

Mr. O'MARA. Yes, sir.

Senator BOREN. What about the—and I am going to try to hurry through the rest of these because we have another vote, and I don't want to have to bring you back. I will just keep the record open, because several other members of the committee wanted to be here, and because of the floor action were not able to be here.

I would like to keep the record open for 2 more days, to allow for additional questions from members, and ask your reply in writing to them.

The EC makes much use of the term "rebalancing," under which a reduction in some tariffs could be offset by increases elsewhere, and I wonder, though, the agreement does not use this term. Is it precluded under this agreement, or is that something that is still open in terms of a possibility, of allowing for what the EC calls "rebalancing"?

Mr. O'MARA. Well, what the agreement says, Mr. Chairman, as you know, under import access you don't note that word, thank God. But we fully expect the European Community to advance proposals along that line, as we proceed. It doesn't preclude them from doing that however, we won't agree to that.

Senator BOREN. In the Europeans' view—of course, we have always had concern about what they are trying to do in terms of shifting demands, increasing tariffs on soybean meal, corn gluten, or other items, in return for offsets elsewhere, in terms of their own priorities within the European Community—are they going to link their proposal on rebalancing to some other kinds of issues, in your opinion?

Mr. O'MARA. Well, I hate to speculate about our friends in Europe, and what they might eventually do. I think at this stage we can expect to see some kind of proposal that incorporates this crazy notion of theirs, but how they will pursue it I frankly don't know.

Senator BOREN. It is something we are suspicious of, resisting, and following very closely.

Mr. O'MARA. Absolutely. I can't imagine any country in the world ever agreeing to that concept.

Mr. LAVOREL. They were totally isolated in the discussions in the back room on this. There was no one supporting them, in fact——

Senator BOREN. They were alone in this kind of approach.

Mr. LAVOREL. They were totally alone.

Senator BOREN. And I would assume it would be our goal to continue to keep them isolated on this kind of issue.

Mr. LAVOREL. I assure you of that.

Senator BOREN. Let me just ask in conclusion, if a substantial agreement is reached, how does the administration view the timing of its implementation, in relation to the process of our being able to write a 1990 farm bill in a timely fashion?

Mr. O'MARA. Well, I think, Mr. Chairman, that there are two answers to that question. One is that it is important that the administration and the Congress are in close coordination as these next months unfold, because it is impossible for us to predict just quite how this negotiation will proceed between now and December of next year, other than it is going to go at a rather slow pace.

So it is important that there is consultation, so we all know where we are headed. What we did commit to in this agreement was to implement, in 1991, as soon as the Congress and other legislatures around the world had provided the go ahead, through implementing legislation.

I don't know if I answered your question, but that is about the best I can do at this stage.

Senator BOREN. Well, you understand why we still feel the need to proceed ahead, and you have no—at least on the trade section, which of course I realize might have to be adjusted after the fact, if some agreement were made that would contravene it, at least as we proceed in our negotiations you see no recommendation coming from the administration to reduce our Export Enhancement Program, or the proposals for including it in the 1990 farm bill at this time?

Mr. O'MARA. Well, there is certainly nothing in this piece of paper from Geneva last week that would require us to do that, and as recently as yesterday I heard Secretary Yeutter continue to support the value of the Export Enhancement Program, for instance, because of its leverage value.

Senator BOREN. Let me ask one quick one, and we have to have a quick answer to this, and you may want to expand upon this for the record, but we are talking about harmonizing the health and sanitary standards internationally, based on scientific evidence, as being one of our objectives.

How do you feel the international scientific bodies mentioned in the text of the agreement, view U.S. standards on different products—meat, citrus, vegetables, and so on—compared with the standards in other nations?

Mr. O'MARA. Well, there is already a good deal of agreement, in the United States and including many other countries, for example, in the Codex Alimentarius. There is already agreement among many countries as to what the standard should be.

What this document, that was agreed to in Geneva last week, will do is bring those already agreed upon standards into the GATT, so it has a legal status.

Senator BOREN. In terms of how our standards are viewed, as compared to the standards of other nations, how much of an adjustment are we going to have to make in our own standards? How well do our own standards fit generally? This is just a general question, in terms of the standards that are actually defined.

Mr. O'MARA. Well, I can't answer that specifically, I am sorry, Mr. Chairman, but there is already a good deal of agreement to our standards, because we have international agreement in the Codex, for example.

Senator BOREN. Are we in generally a better position than most other nations, in terms of these negotiations in terms of our meeting these standards?

Mr. O'MARA. I would guess that we are. I think that we are, yes, sir.

Senator BOREN. Well, I appreciate all of you coming. Again, I apologize for the fact that it has been a disrupted session, as we often have, but this has been very helpful.

We view this as the opening of our formal consultative process this year, and we look forward to having continuing discussions with you informally as well as in the formal setting, but I felt it was important for us, and I heard this from many of my other colleagues on the full committee, as well as on this subcommittee, important for us to have an initial report, and to also convey the message that we appreciate the consultation we have had today.

It is something that we really want to continue. Section 22, as I mentioned, is an important matter that we want to continue to be updated on, any actions that would be taken that would affect those current provisions as they are now being implemented, and of course there are many, many others.

But I appreciate all of you taking the time.

We will leave the record open because there were so many other colleagues that wanted to be here to ask questions, and that will enable them to submit any of those questions to you for the record if I have not already asked them during this meeting.

Thank you very much.

We stand in recess.

Ms. VENEMAN. Thank you, Mr. Chairman.

[Whereupon, at 3:35 p.m., the subcommittee adjourned, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

APPENDIX

U.S. DEPARTMENT OF AGRICULTURE,
FOREIGN AGRICULTURAL SERVICE,
Washington, DC, May 10, 1989.

MS. CHRISTINE SARCONE,
Chief Clerk, Room 328A, Russell Senate Office Building, Washington, DC.

DEAR MS. SARCONE: Enclosed are the questions and answers submitted for the record in association with the Senate Subcommittee on Domestic and Foreign Marketing and Product Promotion hearing on April 12, 1989, concerning the GATT agriculture negotiations. These answers were prepared and reviewed by both the United States Department of Agriculture and the Office of the United States Trade Representative.

Sincerely,

ANN M. VENEMAN,
Associate Administrator,
Foreign Agricultural Service.

SUZANNE EARLY,
Assistant U.S. Trade Representative,
Office of the U.S. Trade Representative.

Enclosure.

ANSWERS TO QUESTIONS FROM THE SENATE AGRICULTURE COMMITTEE

QUESTIONS SUBMITTED BY SENATOR TOM DASCHLE

1. Ambassador Carla Hills in her April 11 testimony before the Trade Subcommittee of the House Ways and Means Committee said that the U.S. has a number of trade distortions in its farm support and protection mechanisms. What specific elements of U.S. agricultural programs does the administration consider to be trade distorting, and which of these does the administration wish to eliminate?

Answer: The identification of trade distorting subsidies and access barriers and how and over what timeframe to achieve a substantial, progressive reduction in them to correct and prevent restrictions and distortions will be a subject for the negotiations over the next 20 months. The United States has proposed that two types of policies be considered non-trade distorting: (1) bonafide foreign and domestic aid programs; and (2) direct income or other payments not linked to production and marketing, including those that provide a safety net against natural disaster or other extraordinary circumstance.

2. It was stated in today's testimony that, in the short-term, the agreement on agriculture has no impact on implementing current programs, including our Section 22 provisions. What impact does it have on our ability to pursue unfair trade complaints against other countries, and what impact does it have on the policies they have in place in the short-term? For example, this country's pork industry, especially in my state of South Dakota, is suffering at the hands of subsidized Canadian imports. Can we continue to pursue a countervailing duty case on Canadian pork products? How does the short-term agreement provide relief against their subsidies? Can or will their level of subsidization be reduced under the short-term agreement?

Answer: The pursuit of a countervailing duty case on Canadian pork imports or any other countervailing duty case would not conflict with the short-term commit-

ments in the agricultural framework agreement. The right to pursue countervailing duties is an "existing GATT right" and is therefore protected in the short-term commitments.

The short-term commitments in the framework agreement would not require Canada to take any actions inconsistent with domestic legislation. We understand that the subsidies to Canadian hog producers are given under the National Tripartite Stabilization Program. Canada could choose to reduce subsidies under the National Tripartite Stabilization Program but would not have to if the legislation required otherwise.

3. Ambassador Hill's also testified that farmers would be better off if they did not receive checks related to production of particular commodities, but instead received checks to handle the particular hardships of being a farmer. Could you explain what constitutes the definition of those particular hardships? How would eligibility for payments and payment limits be determined? Also, this advocates a move away from the structure of the 1985 farm bill, so does that mean the administration does not want to extend the current program beyond 1990?

Answer: Ambassador Hills was referring to the factors affecting the farm sector that distinguish it most from the other sectors of the economy. In no other sector are prices, incomes, and profits so influenced by the uncontrollable risks associated with the weather and other extraordinary circumstances.

Income support payments which are independent of prices or production, and are targeted to those farmers in need of assistance, are a preferred alternative to the trade-distorting subsidies currently in use in most countries. However, there has been no international agreement to move in this direction up to this point. It would be premature, therefore to speculate on how such a multilateral system would work or on the effect that a final agreement in this area would have on U.S. farm legislation.

4. Under the short-term agreement, is it correct that the United States could raise loan rates for the 1990 crop-year to reduce deficiency payment exposure (potentially achieving domestic budget savings), thereby reducing the level of subsidization as sought by the negotiated agreement?

Answer: Under the short-term elements of the Mid-Term Review Agreement, we are committed not to increase overall agricultural support and protection. Specifically, we are committed not to intensify market access barriers or raise support prices to producers, subject to the condition that the commitment be consistent with existing legislation. There is no commitment on the overall level of expenditure for agricultural support programs.

The agreement does not prevent us from raising loan rates for grains. "Support prices" in the case of the U.S. grain programs refers to the target price. However, raising loan rates would have an adverse effect on U.S. competitiveness in export markets and would therefore reduce our negotiating leverage. In fact, competitor nations would be pleased to see us return to higher loan rates with the accompanying higher export prices.

5. The agreement calls for basing health and sanitary regulations on sound scientific evidence. How do you interpret this to affect the current dispute with the EC over imports of hormone treated beef? Will the administration continue to insist that U.S. hormone treated beef be allowed to enter the EC? What is the current status of the negotiations between the United States and the EC on this issue?

Answer: The GATT statement that health-related trade measures should be "consistent with sound scientific evidence" conflicts with the present EC hormones ban. However, it is difficult to say whether the EC will now be any more receptive to a scientific review of their ban, which is an approach the United States has advocated many times. We will certainly continue to maintain the principle of the hormones issue, i.e., that the ban is scientifically unjustified and thus should be revoked. In the near future the United States and EC may be able to reach an understanding which would allow the shipment of some untreated U.S. beef to the EC based on producer self-certification. However, any such understanding would be viewed by the United States as only an interim measure and by no means a final resolution of the hormones issue.

6. How does the United States interpret the term "developing countries" in the context of the agreement? What progress has been made on graduating countries with strong agricultural export sectors, such as Argentina and Brazil, from this category under the long-term elements of the agreement? Will there be varying degrees of special and differential treatment depending on the level of development of specific countries?

Answer: Developing countries are not expected to participate in the short-term commitments and the role that developing countries play in the long-term process is

yet to be negotiated. The issue of graduation will have to be dealt with in the context of the long-term agreement. We will work to ensure that developing countries adhere to any new rules and disciplines that are negotiated commensurate with their level of development, as agreed to in the Punta del Este Declaration.

7. Does the administration interpret the agreement's work program to require that the United States submit a proposed long-term domestic farm bill by the end of 1990? Does this not require, and is it not preferable, that the Congress develop a new farm bill in 1990, rather than waiting for the end of the negotiations?

Answer: The Mid-Term Review Agreement does not explicitly require countries to submit proposed domestic legislation before the end of 1990. December 1990 is the ending date of the negotiations by which time a final agreement must be reached. That agreement would then have to be implemented in domestic legislation. Nevertheless, the 1990 farm bill has important implications for the negotiations, and its preparation should take into account the developments in Geneva. As Secretary Yeutter has recently stated, we should enact a farm bill that serves the fundamental needs of American agriculture while also enhancing our leverage at the negotiating table. We want to emphasize that the administration intends to consult fully with Congress during the preparation of the new farm bill and throughout the Uruguay round negotiating process.

8. Will you make available any studies that the administration has conducted in the last year on the domestic impacts of possible short- or long-term agreements under GATT?

Answer: The short-term part of the framework agreement does not commit us to do anything different from what is required in current legislation. The effect of the short-term agreement would, therefore, be the same as under the 1985 farm legislation.

There are as yet no definitive studies of any specific proposal for long-term reform. USDA researchers have prepared some papers designed to test ideas, analytical approaches and alternative concepts. While those papers provide some insight into generic impacts and key economic relationships involved with general trade liberalization, the simplifying assumptions and modeling limitations mean that there is not yet consensus among researchers on the detailed implications of any specific proposals that have been put before the GATT. Thus, many of the papers contain results considered partial, tentative and subject to major revisions. For that reason, these papers have not been circulated widely.

USDA will provide more definitive research on the benefits and adjustments that may be implied by removal of trade barriers and reform of distortive trade policies when the shape of the negotiated agreement becomes clear.

Questions Submitted by Senator Kent Conrad

1. Studies I have seen, including those of USDA, do not show U.S. producers gaining from the removal of agricultural support.

Have you read the USDA studies? How will the U.S. producer benefit from the short- and long-term aspects of this agreement?

Answer: The framework agreement is only the outcome of the midterm review of the negotiations on agriculture. The short term part of the agreement is basically a commitment not to allow distortions to worsen during the next 20 months of negotiation. The long-term portion of the package sets the ultimate goal of the negotiations and a roadmap for getting there. It does not establish the outcome of the negotiations which is still 20 months away. One would not expect to be able to assess benefits as yet because the negotiations are not completed.

2. What does the United States mean by "substantial progressive reductions" in agricultural support? What does the EEC mean? How are such reductions to be measured and negotiated? Where is the United States going in these negotiations and where does it realistically expect to end up?

Answer: The sentence that you are extrapolating from reads, "The above mentioned long-term objective is to provide for substantial progressive reduction in agricultural support and protection sustained over an agreed period of time, resulting in correcting and preventing restrictions and distortions in world agricultural markets." "Substantial progressive reductions" taken together with "correcting and preventing" will lead to the elimination of trade distorting subsidies and access barriers. We don't see how any other interpretation can be made. The mechanisms and means for translating this goal into specific actions and the length of the transition period will be the subject of the negotiations in the next 20 months. The U.S. in-

tends to put forward proposals in these areas after consultations with congressional committees and with our private sector advisers.

3. Specifically, how is the concern of food security going to be taken into account for large importers like the EEC and Japan? Would an international grain reserve be a useful way of providing food security for the EEC and Japan?

Answer: The U.S. recognizes that certain countries have concerns about food security, and we are currently developing our position on this topic. In allowing countries to address their perceived food security needs, we will seek solutions that least distort the market. Maintaining stock levels and reserves is only one part of this difficult issue and will need to be addressed.

The recent mid-term agreement simply recognizes that food security is a concern of all countries, importers and exporters. We believe that the most effective means to address food security needs is to reduce trade barriers and improve the functioning of the market.

4. Long-term cuts in support are coincidental with a 1990 farm bill. What kind of farm bill is to be proposed to comply with this agreement? Could the 1985 farm bill be extended into the 1990's in compliance with a long-term reduction in support?

Answer: The terms of an eventual GATT settlement will be negotiated over the next 20 months. At this stage we don't know what policy changes will have to be made in order to comply with that settlement. We will consult closely with Congress as the negotiations progress.

5. What specific changes would you see the U.S. making in current agricultural programs to comply with the short-term part of the agreement?

Answer: Since U.S. programs are covered by existing legislation we do not foresee any change in the operation of U.S. programs as a result of the short-term part of the framework agreement.

6. The agreement states that "credit will be given for measures implemented since the Punta del Este Declaration". What will the U.S. claim credit for? Budget cuts for agriculture? Target price cuts? Loan rate cuts? Increases in set-asides and the conservation reserve which take U.S. land out of production?

Answer: The ways and means of applying credit will be negotiated in the next 20 months. It is clear that credit will be applied on a reciprocal basis. Also, steps which we have taken since 1986 to reduce support and protection will be factored into the final agreement.

7. Is Section 22 on the table since "restrictions under waivers" are to be negotiated? What U.S. restrictions are going to be converted to tariffs? Is the EEC variable levy going to be converted to a fixed tariff?

Answer: The framework agreement makes it clear that all policies affecting trade are on the negotiating table. The U.S. has proposed that in order to provide greater transparency to import access barriers, all nontariff barriers be converted to tariffs which can then be negotiated down in the traditional GATT manner.

Under the U.S. proposal, import quotas and variable levies would be converted to tariffs.

8. What is expected of developing countries since they are to receive "special and differential treatment?" What will be the operating definition of a developing country?

Answer: Developing countries, who stand to gain from long-term reform, will be expected to adhere to any new rules and disciplines that are negotiated, commensurate with their level of development, as agreed to in the Punta del Este Declaration. The operating definition of a developing country and the terms of any special and differential treatment will be negotiated over the next 20 months. We will work to ensure that any derogations from the terms of the final agreement will be applied as narrowly as possible.

9. How is short-term compliance to be measured and monitored? Is an aggregate measure of support (PSE) going to be used? If not, how are equivalent changes in U.S. and EEC policies to be compared? Is the operation of the short-term "freeze" and 1990 "rollback" to be a testing stage for monitoring a long-term reduction in support?

Answer: Participants are to report to the Agriculture Negotiating Group on compliance at 6 month intervals. Failure to comply can be raised at a meeting of the Agriculture Negotiating Group. Participants can utilize an aggregate measure of support to make the reductions in support and protection intended in 1990. Because of the constraints of existing legislation, there is no attempt to measure equivalency in the short term. The real significance of the short-term package of commitments is to prevent distortions from worsening in the next 20 months of negotiations.

10. What does the short-term agreement imply for EEP expenditures?

Answer: Export subsidization is included as a part of a broad commitment not to exceed current levels of "domestic and export support and protection." There is no specific commitment on the level of expenditure for the EEP or any other export program. The EC was unwilling to commit to freeze its level of export subsidies, so neither were we.

11. Yesterday at a House Ways and Means Committee hearing Ambassador Carla Hills stated, in effect, that U.S. farm payments distorted trade and that farm payments should be "UNLINKED" from production and farmers should get "HARDSHIP" checks. What does "UNLINKED" mean and what are "HARDSHIP" checks under the USTR proposal?

Answer: Ambassador Hills was referring to the factors affecting the farm sector that distinguish it most from the other sectors of the economy. In no other sector are prices, incomes, and profits so influenced by the uncontrollable risks associated with the weather and other extraordinary circumstances. Income support payments which are independent of prices or production and are targeted to those farmers in need of assistance, are a preferred alternative to the trade-distorting subsidies currently in use in most countries, but there has been no international agreement to move in this direction up to this point. It would be premature to speculate on how such a system would work or on the effect that a final agreement in this area would have on U.S. farm legislation.

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

1. Please describe in detail the results of your analysis of the estimated effect on U.S. net farm income of (a) the short-term agreement reached in Geneva and (b) any further agreements in accordance with the long-term elements and guidelines for reform contained in the text agreed to in Geneva.

Answer: The short-term part of the framework agreement does not commit us to do anything different from what is required in current legislation. The effect on net farm income would, therefore, be the same as under the 1985 farm legislation. Until the results of the next 20 months negotiations are known, it is impossible to speculate what the effects of the ultimate agreement will be on farm income.

2. Please provide for the record your analysis of the economic effects over the next 10 years of the short-term agreement reached in Geneva, and any further agreements in accordance with the long-term elements of that agreement, on a typical Iowa farm of about 400 acres producing corn, soybeans, cattle and hogs.

Answer: See answer to Question 1.

3. Please provide for the record the results of your analyses of the expected effect of the short- and long-term elements, respectively, of the Geneva agreement upon the economic structure of U.S. agriculture, i.e., number of farms, ownership of agricultural assets and capitalization of agricultural enterprises.

Answer: See answer to Question 1.

4. Is it envisioned that the various commodities and sectors of the U.S. agriculture will receive equal emphasis by U.S. negotiators in the upcoming negotiations?

Is it expected that protection and support for some commodities or sectors of U.S. agriculture will experience a relatively greater reduction in protection and support as compared to other commodities and sectors of U.S. agriculture as a result of further negotiations?

Will the reduction in protection and support for a given commodity or sector of U.S. agriculture be accompanied by commensurate reductions in protection and support by foreign countries for the same commodity or sector, or will the negotiations take place on a more general level?

Answer: All sectors of U.S. agriculture will receive equal emphasis. It has been our position since the beginning of the round that this is not a commodity by commodity negotiation. All trade distorting agriculture programs and policies are on the table. We want to reduce trade-distorting support for all commodities equally and come up with a common set of rules and disciplines to govern agricultural trade.

Obviously some commodities are supported to a greater extent than others and thus support for these commodities may be reduced more as a result of new rules and disciplines. However, we will only agree to reductions in support and protection on a multilateral basis. Hence all producers in all countries will be subject to the same degree of market liberalization.

For the most part, the negotiations will take place on a general level. We want to establish GATT rules and disciplines that will be equally applicable to all sectors. However, in the process of negotiating these rules and disciplines we will keep an

eye on each particular sector to ensure that our competitors are not allowed to unfairly subsidize or protect any sector at the expense of U.S. producers.

5. Which countries are considered developing countries for purposes of exemptions from the agreement?

Are any of these countries major competitors of the United States?

Are Brazil and Argentina developing countries?

What difference, if any, will there be between the short- and long-term agreements as they pertain to developing countries?

Answer: Developing countries are not expected to participate in the short-term commitments and the role that developing countries play in the long-term process is yet to be negotiated. The question of which developing countries will qualify for any special and differential treatment under the long-term agreement will also have to be addressed. Obviously certain countries that are normally considered developing countries, such as Brazil and Argentina, are competitors of ours in the agricultural export market. We will work to ensure that developing countries adhere to any new rules and disciplines that are negotiated commensurate with their level of development, as agreed to in the Punta del Este Declaration.

6. What effect does the agreement have on the debate now beginning on the provisions of the next farm bill?

Answer: The Mid-Term Review Agreement simply lays out the roadmap for the agriculture negotiations over the next 20 months. Therefore, it has little direct effect on the 1990 farm bill debate. The agreement does, however, signal progress in the negotiations, and we trust that Congress will take the Geneva developments into account as it works on the new legislation. Any final Uruguay round agreement will have to be reviewed by Congress, and any legislation that may be required to begin the long-term reforms would have to be worked out with and approved by Congress. We want to emphasize that it is the administration's intention to consult fully with Congress and the private sector during the negotiating process.

7. What limitation does the agreement place on the United States' ability to reduce or increase the amount of land taken out of production through the GRP or other programs?

Answer: The agreement places no restrictions whatsoever on U.S. set-aside programs.

8. Have any other countries committed to reduce their production in the way that the United States does under its acreage reduction programs?

Answer: No other nation has reduced acreage or otherwise controlled production on the scale of the U.S. acreage reduction programs. The EC recently implemented a small set-aside program which could eventually idle a little over 1 percent of EC farmland. In the dairy sector, the Community has employed production quotas that have reduced production. Other countries, such as Canada and several Nordic countries, have similar quotas in certain sectors.

9. What effect will this agreement, or the long-term agreement, have on programs to aid agriculture such as research, extension, weather forecasting, et cetera.

Answer: It has yet to be determined what programs distort trade. This will be one of the subjects for negotiation in the next 20 months.

10. Is the United States bound by the short-term agreement to allow imports at recent record levels, even though those levels were affected by the unusual circumstance of a severe drought?

Answer: U.S. import restrictions are covered by existing legislation. The short term part of the framework agreement will not interfere with the administration's ability to carry out those laws.

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